Building Societies Association

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Response to the HMRC consultation: Better use of new and improved third-party data

About the Building Societies Association

The Building Societies Association (BSA) represents all UK building societies, as well as two mutual –owned banks and 8 credit unions. Building societies and mutual – owned banks have total assets of almost £670 billion. They hold residential mortgages of £500 billion, 29% of the total outstanding in the UK. They also hold over £500 billion of retail deposits, accounting for 23% of all such deposits in the UK. Building societies and mutual - owned banks account for 46% of all cash ISA balances. They employ around 52,300 full and part-time staff and operate through approximately 1,300 branches, a 35% share of branches across the UK.

Executive summary

The BSA welcomes the opportunity to respond to the Government's proposals on the better use of new and improved third-party data. We support the objective of modernising the reporting framework and improving the quality, consistency and timeliness of data available to HMRC. A better framework could improve the customer experience, support pre-population of Income Tax Self Assessment (ITSA) returns and help close the tax gap.

However, the regime must be proportionate and workable for all firms in scope. The proposals would require significant systems, process and control changes, with the burden falling most heavily on smaller building societies and credit unions. Many smaller firms were not involved in earlier design work, and key practical issues still need to be tested and resolved.

We therefore support a phased implementation approach, with larger firms and those most involved in developing the regime coming into scope first, and smaller firms and credit unions following later once lessons have been learned. HMRC should also provide clear and final guidance on account scope, reporting frequency, National Insurance number (NINO) collection, customer treatment where NINOs are not provided, and penalties.

The proposed 14-day reporting window is unrealistic. Firms need sufficient time to check returns, make manual adjustments and remediate issues before submission. We strongly argue that the reporting window should be at least 60 days.

The regime should align as far as possible with existing reporting processes, including Cash ISA reporting, CRS and existing credit union dividend reporting. This would reduce duplication, lower implementation costs and support better data quality.

NINO collection and verification remain major concerns. HMRC should develop a secure NINO verification service and should not apply penalties in relation to NINO verification before such a service is available.

We are also concerned by the suggestion that firms should consider closing an account where an eligible customer does not provide a NINO within 45 days. HMRC should give firms clear guidance on how to treat customers in these circumstances so that account closure or refusal does not become an unintended customer harm.

Response to the HMRC consultation: Better use of new and improved third-party data

The BSA welcomes the proposals to improve the customer experience and HMRC's day-to-day performance by reducing the volume of information taxpayers must provide, closing the tax gap in cases of error and evasion, and reforming HMRC's digital service, which should reduce costs for both HMRC and taxpayers. This is an important part of HMRC's wider work to improve the quality, consistency and timeliness of third-party data used to support tax administration.

However, successful implementation depends on HMRC resolving several material issues before commencement. Firms need clear and final guidance on scope, reporting frequency, NINO collection, customer treatment where NINOs are not provided, and the operation of the penalty framework during implementation. Without that clarity, there is a real risk that firms will be required to build systems and processes against uncertain requirements, increasing cost, operational risk and the likelihood of poorer data quality. We ask HMRC to address the following points before implementation:

- A phased implementation approach, with smaller firms and credit unions brought in later once practical issues have been resolved,
- Workshops and targeted engagement for smaller firms and credit unions that were not involved in the earlier design and development,
- Clarity on which accounts, products and categories of interest are in scope, and on which are subject to quarterly or annual reporting,
- A 60-day reporting window, rather than the proposed 14-day window,
- Aligning the new reporting framework as far as possible with existing reporting processes, including Cash ISA reporting, CRS and existing credit union dividend reporting,
- Providing clear guidance on how firms should treat customers who do not provide a NINO, so account closure or refusal does not become an unintended customer harm,
- Clear public and sector-facing communications explaining why firms may need to collect NINOs from customers,
- HMRC should develop a secure NINO verification service so firms can confirm whether customer-provided NINOs are accurate, and
- A proportionate, discretionary penalty framework, and penalties should not be enforced in relation to NINO verification until a workable HMRC verification system is available.

Proportionate Implementation

Smaller firms and Credit Unions

The BSA supports the principle of modernising interest reporting requirements, but maintains that implementation should remain proportionate and recognise the operational challenges faced by smaller building societies and credit unions.

Recently, HMRC recognised that there may be a case for excluding certain data suppliers from the new reporting framework, including credit unions. HMRC also acknowledged that smaller organisations could face proportionately greater implementation costs than larger firms, which is in line with findings from our research. [1]

However, the draft legislation appears to bring some credit unions within scope. We do not support this and believe **credit unions should be excluded from the initial requirements**. Given the likely operational impact on the sector, HMRC should provide further clarity on why it has moved away from its earlier position.

We are also concerned that credit unions have had less opportunity than larger institutions to help shape the regime. They should not be required to comply with new obligations before they have had sufficient opportunity to engage with the design and implementation of those requirements.

Despite this, the BSA recognises the benefits that this regime may deliver for taxpayers over the longer term and agrees that it could be positive for credit union members to take advantage of improvements to the tax system in the same way as customers of larger institutions. We are therefore not advocating a permanent exclusion for credit unions. Instead, we believe credit unions should be excluded from the initial implementation phase and brought into scope at a later date, following further engagement with the sector and once lessons have been learned from implementation by larger firms.

Under this phased approach, the largest firms, and those most actively involved in developing the regime, would come into scope first. This would allow HMRC and industry to identify and resolve practical issues before smaller firms and credit unions are brought into scope, resulting in a smoother and more proportionate implementation across the sector.

The BSA notes that the impact on credit unions is unlikely to be uniform. Only credit unions which pay interest on depository savings accounts or interest-bearing current accounts are likely to fall within scope of the new reporting requirements. However, credit unions already undertake annual reporting in relation to dividend payments and have established reporting systems and controls in place. Additionally, the BSA expects that, of the credit unions that fall within scope of this regime, many will primarily be subject to annual rather than quarterly reporting requirements. This

[1] The burden of regulation

reflects the nature of many credit union products. To the extent that this is the case, we welcome it as a proportionate outcome.

We believe this presents an opportunity for HMRC to align the new requirements as closely as possible with existing dividend and annual reporting processes. Where credit unions already report similar information, the new regime should build on those established processes rather than create a separate reporting framework. This would reduce duplication, lower implementation costs and allow firms to leverage existing systems and controls.

Implementation Timetable

As outlined above, a sufficient implementation timeline is crucial for our members, who are already facing significant administrative burdens.

Phased implementation would improve the prospects of successful delivery. Larger financial institutions, particularly those with the capacity to test the regime and share lessons learned, should come into scope first. Medium-sized and smaller institutions should then follow in later stages, once practical issues have been identified and resolved. This approach would reduce the risk of smaller teams having to implement complex reporting changes before errors have been addressed, unnecessarily burdening those with smaller resource capacity. This approach will allow for a smoother and ultimately more successful implementation, to meet HMRC's policy objectives.

We are aware that HMRC has engaged directly with a subset of financial institutions through targeted workshops in developing the regime and schema. Similar engagement should be offered to the predominantly smaller firms that were not included in that initial process before they are brought into scope. This would ensure those firms have sufficient time to understand the requirements, assess their operational impact and prepare on an equal footing.

Reporting Framework and Reporting Obligations

Standing reporting obligations

As set out in our previous consultation response, we support the adoption of a routine reporting framework instead of HMRC notices, but would emphasise the importance of ensuring that the new reporting framework aligns as closely as possible with existing reporting regimes, particularly Cash ISA reporting and the Common Reporting Standard (CRS).

The proposed legislation introduces an important but onerous administrative and operational change, at a time when many BSA members, particularly smaller firms, continue to experience significant and excessive regulatory burden. In our 'The burden of regulation' report published July 2026, our members report an increase in regulatory engagement and requirements, layering of rules over many years, and increasing assurance and oversight expectations. [2] After adjusting for firm size, the cost of compliance is far greater for smaller building societies, at £644 per million pounds of assets in 2026 compared with £56 per million pounds of assets for larger building societies.

It is also important for HMRC to recognise that, for many firms, reporting obligations may sit with one individual rather than a specialist team. Further requirements should therefore only be introduced where they are demonstrably necessary and proportionate. Otherwise, HMRC risks increasing pressure on already limited resources, reducing the time available for checking and remediation, and ultimately receiving lower-quality data overall for limited policy benefit.

Quarterly and annual reporting

We welcome HMRC's decision to move from monthly to quarterly reporting for interest income reporting. As we noted in our response to the previous consultation, □[3]quarterly reporting represents a more proportionate approach and strikes a better balance between improving the timeliness of information available to HMRC and the operational burden placed on firms.

Further clarification is needed on which accounts, products and categories of interest will be subject to quarterly or annual reporting. As these decisions are taken, we encourage HMRC to continue to apply the principle of proportionality. This will be particularly important for smaller building societies and credit unions, which often have niche product ranges and more limited implementation resources.

For example, products may have characteristics which do not fit neatly into standard reporting categories, such as fixed-term savings products and other accounts where the timing of interest payments and customer access may differ. We encourage HMRC to provide more practical examples covering different savings products and interest scenarios, such as fixed-term savings, variable-rate accounts, ISAs, bonus interest and cases where interest is accrued or paid at different points. This would help the relevant teams map products to the correct reporting frequency.

Reporting Deadlines

The draft legislation proposes that financial institutions must provide interest income data no later than 14 days after the end of each reporting period. **This is unrealistic and unworkable.** The window should be 60 days at a minimum.

We understand that HMRC surveyed a number of firms to test their selection of a 14-day timetable, however this survey was not circulated to BSA members. We also caution that the survey respondents were those with the capacity to contribute and

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[2] The burden of regulation
[3] BSA Responds to 'BBSI Reporting - Better Use of Third-Party Data' 21 May 2025

engage in the HMRC workshops at short notice, which is not representative of all UK firms.

Our members need sufficient time to check and make manual adjustments to BBSI returns, to ensure they submit data of high quality. This is often prepared at the same time as other returns. Our members make full use of the available time to prepare and make adjustments. We warn that ultimately, introducing an unrealistic reporting window risks undermining the policy's effectiveness altogether. If firms are required to submit returns before they have had sufficient time, both BBSI returns and other reporting obligations could suffer. While we look forward to future technological development that can bring processes toward real-time reporting, this is not the current reality.

As we stated in our 2025 consultation response, a balance needs to be found between the burdens of financial institutions reporting a significant amount of financial account information on depositors and the timeliness needed at the end of the reporting period to support pre-population of ITSA returns.

A 14-day reporting window is particularly difficult as the reporting deadlines fall across bank holiday and school holiday periods. In practice, staff availability may be reduced because of annual leave, sickness absence or caring responsibilities. For smaller firms, where HMRC reporting may sit with one individual rather than a specialist team, even a short absence could materially affect the time available for checks, manual adjustments and remediation. This increases the risk of rushed submissions and poorer-quality data, which would undermine the policy objective of improving the accuracy and usefulness of third-party data.

It is not clear that this significant operational stress is necessary to deliver the timely reporting to support the pre-population of ITSA returns. While we understand that a longer window will reduce the efficacy of the policy for a small proportion of the ITSA population base, we want to work with HMRC on what is currently possible and feasible.

We strongly argue that the reporting deadlines should be a minimum of 60 days at initial implementation.

Technical design and schema

In our response to the 2025 consultation, we highlighted the importance of ensuring that the new reporting framework aligns as closely as possible with existing reporting regimes, particularly Cash ISA reporting and the Common Reporting Standard (CRS). We noted that firms should not be required to build multiple reporting solutions where the same or similar information is already being collected and reported through existing frameworks. We also encouraged HMRC to develop a streamlined reporting schema which would enable firms to build simpler and more comprehensive reporting systems. We welcome HMRC's work to develop a streamlined reporting framework, and encourage continued engagement with industry to ensure alignment is maximised wherever possible.

It is disappointing that BSA members and other credit unions were not included in later stages of that process. We recognise that changes have been made following feedback from firms, including amendments to certain data fields and validation requirements. We note for example that the proposed schema has new fields (e.g. cumulative YTD interest, interest frequency) and that some field lengths have increased.

It is essential that the technical design and schema are suitable and workable for all financial institutions. As part of a phased implementation process, we would support the introduction of a test facility and/or an ongoing process of test and learn to support firms' take-up of the new reporting requirements. This should function both as a facility for institutions to access guidance if they run into challenges when using it, and as an opportunity for HMRC to revisit the schema if it is found not to be working effectively.

In addition, we propose an improvement on the current system: SDES currently allows each user to view only their own submissions. We would support a new upload system to allow all submissions from the financial institution to be viewed. Error logs could also be viewed in the same way if upload fails.

National Insurance number (NINO) collection and due diligence

Collection from customers

We welcome the changes HMRC has made following the 2025 consultation and its continued engagement with industry. This includes greater recognition of the practical difficulties of NINO collection requirements, as well as acknowledgement that some individuals may not hold, or be entitled to obtain, a NINO.

The draft legislation sets out that, where an individual is eligible for a NINO but does not provide one, the firm has 45 days to obtain it from the customer. If the NINO is still not provided, the firm should consider closing the account.

We are concerned that this proposal could result in a conflict with firms' Consumer Duty obligations and could lead to customer harm. Rather than simply expecting firms to consider account closure where a NINO is not provided within 45 days, HMRC should set out clearly when, if ever, account closure would be justified in these circumstances. HMRC should also assess the potential impact on financially insecure or vulnerable customers, who may be less able to respond quickly or provide the required information. Without this clarity, firms may adopt a risk-averse approach that leads to unnecessary account closures and poor customer outcomes.

If the Government wants to encourage consumers to better save and invest their money, we are concerned an account closure expectation sends the wrong message. It risks reputational harm to firms and damages a key relationship consumers have in their financial wellbeing, potentially redirecting consumers to other, likely non-compliant, forms of financial saving and investment.

Ultimately, we seek to avoid account closure or refusal becoming an unintended customer harm. We ask HMRC to give firms clear guidance on how to treat eligible customers in these circumstances, to avoid harm to their financial wellbeing or compromise financial institutions' alignment with Consumer Duty.

Verification and due diligence

Collecting NINOs from existing account holders is a significant operational exercise. We therefore support HMRC's pragmatic approach, including the two-year implementation window and the fact that financial institutions will not be penalised for being unable to obtain NINOs from customers where they've made 'reasonable efforts'. We highlight that members still expect to have a significant number of accounts with missing NINOs even once we have made all reasonable attempts to collect them.

We support the proposed approach based on reasonable efforts, record-keeping and remediation rather than prescriptive verification requirements. This focuses on firms maintaining appropriate records and evidencing, for example, the reasons why a NINO may be unavailable. We encourage HMRC to continue recognising that firms can only act on the information available to them and should not be expected to take disproportionate action where reasonable efforts have already been made.

We expect clear guidance on what is meant by 'reasonable efforts' and we trust that HMRC will work closely with the sector to ensure that this guidance is proportionate to financial institutions of different size and capacity, taking into account the resources available to all firms in scope. Even when controlling for the number of accounts in question, what will be seen as reasonable for a major international bank may not be reasonable for a small credit union in terms of, for example, process and automation capability.

In our previous consultation response, we raised concerns regarding firms' ability to verify that a NINO genuinely belongs to a customer in the absence of an HMRC verification service. We therefore welcome HMRC's recognition of these practical limitations and the more proportionate approach reflected in the draft guidance. We strongly encourage HMRC to develop a secure NINO verification service, as is currently possible with Company Registration Numbers (CRNs) via Companies House and VAT Registration Numbers (VRNs) using the government's existing digital "Check a UK VAT number" tool. This is an essential element of improving data quality and enabling HMRC to achieve its policy objectives. As set out below, we do not think penalties should be applied to NINO verification before a verification service is available.

Customer communication

We welcome HMRC's recognition of the importance of customer communications and its engagement with industry on this issue. As we highlighted previously, requesting NINOs from customers who may never previously have been asked to provide them presents a number of challenges. Customers may legitimately question why financial institutions are seeking additional personal information and, without appropriate context, there is a risk that genuine requests could be mistaken for phishing or fraud attempts.

The BSA would therefore welcome HMRC continuing to explore opportunities to improve public awareness of the policy and the reasons why deposit takers may be required to collect NINOs.

Effective communications will also help ensure customers receive consistent messaging across the sector. This should reduce confusion and support better customer outcomes by helping customers understand the purpose of the information request and how the information will be used.

Penalties and compliance

We welcome HMRC's acknowledgement that safeguards and mitigations are needed to ensure the penalty regime is proportionate and fair. The purpose of the legislative change should be to improve data quality and support accurate reporting, not to raise revenue through penalties. The penalty framework should therefore be discretionary, risk-based and focused on good-faith improvement.

BSA members will be acting in good faith and will be keen to engage constructively with HMRC as the regime is implemented and embedded. We therefore expect good communication and co-operation between financial institutions and HMRC officers, with HMRC supporting firms through a process of continuous improvement rather than moving too quickly to enforcement.

Proportionality will be particularly important because HMRC is proposing to align the BBSI penalty framework with CRS, even though the reporting windows are very different. Under CRS, firms have around five months between the end of the reporting year and the filing deadline. By contrast, the proposed BBSI reporting window could be as short as 14 days. Applying the same penalty framework to regimes with such different filing timescales risks creating disproportionate outcomes, especially given the likely volume of reportable accounts under BBSI.

This concern is heightened because BBSI is a new regime, under which firms will be adapting systems, processes and controls while managing other regulatory and tax reporting obligations. A penalty approach that does not account for the much shorter BBSI reporting window could create disproportionate outcomes, particularly where firms are acting in good faith but face genuine operational constraints. It could also create incentives for rushed submissions, which would undermine rather than improve data quality. We highlight here again that many financial institutions, including building societies and credit unions, were not engaged by HMRC in recent targeted workshops in developing the regime and schema.

HMRC should therefore assess what can reasonably be expected of firms before administering any penalties. That assessment should take account of the resources, systems, and practical steps available to each firm, including the differences between institutions. It should also distinguish clearly between genuine implementation or data quality issues and deliberate or careless non-compliance, particularly during the initial implementation period.

We encourage HMRC to ensure that the final due diligence guidance reflects this risk-based and proportionate approach. The guidance should give firms clear expectations about the steps they are expected to take, while recognising that those steps may differ depending on a firm's size, systems, and customer base.

NINO verification is a particular area where proportionality will be essential. Until a secure and workable NINO verification system is available, firms cannot independently confirm whether customer-provided information is accurate. HMRC should therefore not apply penalties for poor verification, or for due diligence failures linked to NINO accuracy, where firms have acted reasonably but are unable to verify a NINO.

Before the regime goes live, firms will need a high degree of certainty. Banks and building societies are necessarily cautious institutions, and even low-value penalties can carry reputational consequences, particularly for mutuals which are owned by their members. HMRC should therefore provide clear guidance on which accounts and categories of interest are in scope, what reasonable due diligence looks like, and how it will assess whether a firm has taken reasonable steps.

We also highlight that penalties for late filing should follow the same proportionate and discretionary approach as the wider penalty regime. This will be particularly important if HMRC proceeds with any reporting deadline shorter than 60 days, given the volume of data firms may need to submit, and the systems changes required to support the new obligation.